COMMUNITY FOUNDATION OF NORTH CENTRAL WISCONSIN

AdvisorImpact

A Quarterly Newsletter for Professional Advisors

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Community Foundations Offer Year-End Tax Solutions

When clients anticipate owing a substantial sum to the Internal Revenue Service at year-end, they may look to their professional advisors to recommend alternative destinations for their hard-won assets—destinations that may help further their charitable goals.

Perhaps your client sold his business for $4 million in May, or maybe he simply had a high-income year. The value of his taxable assets has jumped substantially, and he needs a creative solution by December 31. At this point, many professional advisors point their clients toward community foundations, which are highly knowledgeable about local charities and not only support individuals' philanthropic beliefs but also offer higher deduction rates than private foundations.

"We often get referrals from professional advisors guiding their clients through year-end tax issues," says Kimberly Kur, senior advancement officer of professional advisor services for the Arizona Community Foundation. "Attorneys, CPAs, financial planners, trust officers and insurance agents send their clients our way."

Tax Benefits

When it comes to tax savings, community foundations hold certain advantages over private foundations because they qualify as public charities.

Cash donations: "Donors to community foundations can deduct up to 50 percent of their adjusted gross income (AGI), with a five-year carryforward," Kur says. So if a client has an AGI of $100,000 and they give $50,000 in cash to set up a fund, they may then be able to deduct $50,000 that year. On the other hand, if the same client gives to a private foundation, they can only deduct up to 30 percent of their AGI, or $30,000 on a $50,000 contribution, and would have to carry the balance forward.

Appreciated assets donations: "The same pattern follows with appreciated property, like real estate or securities held for the long-term," Kur says. When a client donates appreciated property to a community foundation, the client can receive a deduction of up to 30 percent of their AGI, with a five-year carryforward. Those giving their appreciated assets to a private foundation, however, have a lower deduction limit of 20 percent.

Time Constraints

Establishing a private foundation or trust takes time—something often in short supply for investors looking at a December 31 deadline. Yet it only takes one day—sometimes even only half an hour—to set up a fund at a community foundation. "Most community foundations make it easy," says Christopher Hoyt, a professor of Law at the University of Missouri (Kansas City) and the author of *The Legal Compendium for Community Foundations.* "Usually there is a short gift agreement where the donor agrees to abide by the policies, and then they include a check."

Fund Options

Community foundations offer a number of funds which can help clients find tax solutions, including, but not limited to:

- **Donor Advised Funds:** "Creating a donor advised fund is one of the most popular paths for clients who want to make a donation before January 1 but haven't decided exactly which nonprofit to support. After setting up the fund, donors can take their time recommending charities to support," says Greg Kruzel, estate and business planning attorney with Scottsdale, Arizona-based Braun Siler Kruzel PC. "You can deduct that amount today, even if it's distributed out over a period of months if not years," adds Kruzel, who has referred numerous clients to the Arizona Community Foundation. "It gives you a lot more time to go through the process."
- **Field of Interest Funds:** These funds distribute money to charities focused on one specific area, such as cancer research or music education. Donors can rely on the knowledge of community foundation employees who will direct grants to charities that are best suited to carry out the fund's purposes.
- **Designated Funds:** Another option is a designated fund, designed to distribute funds to one specific charity over time. This ensures that a small charity won't be overwhelmed by a large donation it can't handle. Not long ago, one of Kruzel's clients wanted to make a large six- to seven-figure donation to a charity that typically pulled in between $200,000 and $400,000 a year. "I just had the obvious question—what will they do with that?" he says. "Are they going to be smart with it?" A designated fund alleviates this concern.

•A Creative Resource

When clients need an immediate and creative solution to their tax issues, community foundations serve as an excellent resource—not just for philanthropic reasons, but for tax purposes, too. "It's much more time- and cost-effective for clients to work within the community foundation than do it themselves," Kruzel says.

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Gift of Remainder Interest in a Residence or Farm

Fourth of Six

For a person in the right set of circumstances, a gift of a remainder interest in a residence or farm/ranch can make one a philanthropist without a noticeable change in lifestyle.
To understand this gift method, it is helpful to think of a residence or farm as being composed of two major elements:

1) The present interest, which is the right to live in and enjoy the residence now.
2) The future interest, which is the right of ownership at some later date.

The gift involves the giving of the future interest, while retaining the present interest for the current tenant/owner who is the donor.

Definitions:
Residence: Land and house which is lived in by the owner for at least 14 days per year. It does not have to be a primary residence. The definition includes vacation homes, shares in a cooperative apartment or condominium provided that, in all instances, the property is used by the donor as his/her personal residence. The definition does not include furnishings.
Farm/Ranch: Land used by donor or a tenant for producing crops, fruits, agricultural products, or for the sustenance of livestock. This includes farmhouses, barns, and other out buildings.
Tax Considerations: *[Reg.Sec. 1.170A-7(b)(3) and (4), and IRC sec.170(f)(3)]*
Income Tax: An income tax deduction is allowed when an irrevocable gift of the remainder interest in a residence is made. The amount of the deduction depends on several factors, as with gifts of real estate in general, the value of the gift, and the charitable deduction, depends on a qualified appraisal of the property. In addition, the appraisal will need to fix the useful life of improvements to the property along with their salvageable value. For an estimate of the charitable deduction for a specific case please visit www.pgdc.com, scroll down the left side, under resources, click on calculations.

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Gift of Remainder Interest in a Residence or Farm *(continued from front)*

Gift Estate Tax: If the person making the gift is the only one who will live in the house, this gift method effectively removes the value of the residence from the taxable estate. If the only other life tenant is the spouse of the donor, steps can be taken to qualify the spouse's interest for the marital deduction, no tax would be due. If someone other than the donor or spouse is a life tenant, the value of that person's life interest could be a reportable gift.

Who pays the taxes and maintenance?
The life tenant would continue to pay the taxes, mow the lawn, fix broken windows, repaint, etc. If major repairs arise, such as a new roof, there may be some sharing in the cost. This would be negotiated and agreed upon in writing at the time of the gift.

Donor decides not to remain at the residence or is unable to do so:
Should the donor - or life tenant - decide not to continue to occupy the residence, or becomes unable to do so, there are many options available and would be agreed upon in writing at the time the gift is made.

Gift of only Part of the Remainder Interest:
An individual is able to divide the remainder interest in a residence between a charity and an individual. According to Rev.Rul. 87-37, a contribution deduction is allowable when the portion of remainder interest is conveyed to a charity. This opens a planning opportunity for individuals or couples who want to continue living in their home, increase their cash flow, make a future charitable gift, and provide for children. This planning device will be particularly appealing to parents whose residence is their primary asset and who need to increase cash flow.

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cf NATIONAL STANDARDS™

The Community Foundation of North Central Wisconsin is confirmed in compliance with National Standards for U.S. Community Foundations.

NEW! Online Giving!

Your clients may now use our website to give to the Wausau·Marathon County Fund or any of the 260 funds at the Community Foundation. It's fast, convenient, and secure. Clients can replenish their donor advised fund, make a special gift, or take care of all of their charitable giving for the year with just a few clicks of the mouse. We invite you to encourage your clients to take advantage of this enhanced donor service and welcome your feedback.

Visit www.cfoncw.org and follow the links to the easiest way yet to invest in your community.

Visit the Planned Giving Design Center to learn about charitable estate & tax planning strategies @ www.pgdc.com. Sign up for a free subscription to receive immediate up-to-date information. It's fast and easy!

COMMUNITY FOUNDATION OF NORTH CENTRAL WISCONSIN

The Community Foundation of North Central Wisconsin is a nonprofit organization that exists to enrich life for present and future generations.

If you would like to learn more about how we can work together to meet your client's philanthropic needs, contact Jean Tehan, executive director of the Community Foundation.

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